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TO RUEHC/SECSTATE WASHDC PRIORITY 7236
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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002399

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STATE PASS USTR, STATE FOR EAP/TC, USTR FOR STRATFORD AND
ALTBACH, TREASURY FOR OASIA/TTYANG, COMMERCE FOR
4431/ITA/MAC/AP/OPB/TAIWAN

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [PREL](#) [PINR](#) [TW](#)

SUBJECT: HSIEH ADVISOR OUTLINES FINANCE POLICY AGENDA

REF: TAIPEI 2295

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Classified By: Robert S. Wang, AIT Deputy Director, for reasons 1.4 (b)
and (d).

¶1. (U) This cable is one in a series on the Taiwan
presidential candidates' economic policies and advisors.

¶2. (C) SUMMARY. In an October 25 meeting with AIT economic
chief, DPP presidential campaign financial policy advisor Ray
¶B. Dawn (Tung Rei-bin) criticized what he characterized as
KMT over-reliance on economic relations with China as the
solution to Taiwan's economic problems. Nonetheless, Taiwan
should facilitate cross-Straits economic exchange by
concluding investment protection and financial settlement
agreements with the PRC, he said, and all Taiwan residents
deserve equal opportunity to invest in Chinese stocks and
mutual funds. Dawn supported continued financial sector
consolidation and tax reform to bolster Taiwan's economic
competitiveness. He argued that KMT plans for sustained six
percent annual GDP growth are not possible, and cited four
percent as a more realistic long-term target. END SUMMARY.

Cross-strait economic and financial integration

¶3. (C) In addition to his duties as Chairman of the Central
Deposit Insurance Corporation (CDIC), Dawn coordinates with
academic Kenneth Lin (reftel) in advising DPP presidential
candidate Frank Hsieh on economic policy, with a focus on
financial issues. In Dawn's analysis, KMT candidate Ma
Ying-jeou sees China "as the solution to all of Taiwan's
economic problems," while Hsieh views relations with the PRC
as only one of multiple factors needed to improve the Taiwan
economy. Dawn criticized the KMT for encouraging greater
economic integration with China while neglecting the impact
of cross-Straits integration on Taiwan's employment. He
characterized the KMT's policy as a "Hong Kong model" of
outsourcing manufacturing to the Mainland while hoping that
the service sector and increased Chinese tourism will provide
sufficient economic growth. Taiwan already leads the world

in its degree of integration with the Chinese economy, argued Dawn, and must look at other sources of growth.

14. (C) On cross-Strait financial integration, Dawn maintained that China's financial sector will be accessible only to the largest foreign financial institutions, effectively excluding many small Taiwan banks from entering the market. He said the Taiwan and China central banks should establish a bilateral settlement mechanism to facilitate cross-Strait financial flows. In Dawn's view, Taiwan businesses in China should be treated like any other "foreign" investor, a reform that would require negotiation of an investment protection scheme with the PRC. Relatively affluent, well-connected Taiwan residents now invest in Chinese stocks and mutual funds via Hong Kong and other third party markets, he noted. The system should be reformed so that everyone in Taiwan is able to invest in China on an equal footing, stated Dawn.

Financial sector and tax reform

15. (C) Noting that Taiwan has "too many banks," Dawn stressed the importance of continuing the current financial sector consolidation program. The overlapping functions of Taiwan's central bank, Financial Supervisory Commission, and other financial regulatory institutions should be reviewed, he added. The Taiwan authorities must divest their interest in state-owned financial institutions, stated Dawn, but should establish mechanisms to ensure that ordinary citizens have a chance to buy shares. Otherwise, he warned, the state-owned banks will be snapped up by prominent business families already active in the financial sector. Dawn said he wants to reduce Taiwan's inheritance tax so that the rate is more competitive with those of Singapore, Hong Kong, and other competitors in the region. He also called for closing a tax policy loophole in the industrial upgrading law that he

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maintained results in NT \$170 billion (about US \$5 billion) in annual lost revenue. With the loophole closed, he explained, the ensuing revenue gains would allow reductions in corporate and/or personal income taxes. (Note: The law in question includes tax holidays, tax offsets, and incentives for research and training. Based on our understanding of the law, Dawn appeared to be referring to foregone revenue when describing the "loophole", rather than actual tax evasion.)

16. (C) According to Dawn, the KMT plan for an annual 6 percent GDP growth rate is "not sustainable over the long term." Since Taiwan is a small, open economy and highly dependent on imported commodities, he explained, it has no way of hedging against the negative economic impact of fluctuating commodity prices. A six percent growth rate may be achievable over the short term, said Dawn, but over the next decade, "I'd be happy with four percent." (Note: Taiwan's projected 2007 growth rate is approximately 4.5 percent).

17. (C) COMMENT. Dawn appeared preoccupied with his day job of CDIC Chairman, and was either unable or unwilling to discuss his financial policy proposals in extensive detail. With local newspapers running advertisements for investment trips to Shanghai, the general public's access to Chinese investments is already relatively widespread. END COMMENT.

Biographic data

18. (SBU) Ray B. Dawn (Chinese name: Tung Rei-bin) was born on August 2, 1958, and is from the Taipei area. He holds master's and bachelor's degrees in economics from National Taiwan University, and a doctorate in economics from Vanderbilt University. His previous positions include Director of the Financial Research Division at the Taiwan Institute of Economic Research (1994), Chairman of the Bank

of Kaohsiung (2000-02), President and CEO of Taiwan Sugar Company (2002), President and CEO of First Financial Holding Company (2003), Director General of the Finance Bureau of Kaohsiung City Government (2003-05), and Chairman of the Taiwan Tobacco and Liquor Company (2005-06). He became Chairman of the Central Deposit Insurance Corporation in September 2006. Dawn speaks fluent English.

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